



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

DP/CP

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

OCT 25 2002

MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES
DEPUTY FOR ACQUISITION AND BUSINESS
MANAGEMENT, ASN(RDA)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING), SAF/AQC
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(POLICY AND PROCUREMENT), ASA(ALT)

SUBJECT: Use of the Technology Incentive in Weighted Guidelines
Profit Objectives

In the National Defense Authorization Act for Fiscal Year 2000 Congress mandated that the Department of Defense (DoD) review its weighted guidelines profit policy and consider modifying the policy, to provide an increased incentive for contractors to develop and produce complex and innovative new technologies for weapons systems. As a consequence, DoD's weighted guidelines profit policy was revised in December 2000 to incorporate a technology incentive as part of the technical component of performance risk.

In a report issued July 26, 2001 (GAO-01-801), the General Accounting Office (GAO) recommended that a better definition be provided regarding the kind of innovation to be rewarded with the technology incentive factor. Out of a concern that the application of the factor was too open-ended, the GAO also indicated that the profit policy could better indicate the length of time that contractors might be rewarded with the technology innovation factor for innovations introduced during a program's research and development phase. Finally, the GAO was concerned that the technology incentive policy might be in conflict with DoD 5000 series policies regarding the relative importance of technology innovation at different points in the acquisition cycle. GAO report GAO-01-801 is available on line at www.gao.gov.

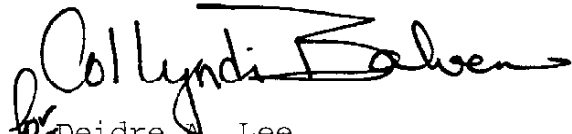
In my reply to the GAO I indicated that, because the technology incentive factor had been available for less than a year, it was too soon to reach any definitive conclusions



regarding the factor's use, or the need for any clarifications to the December 2000 policy. I made a commitment that, after the policy had been in place for at least a year, I would examine how the technology incentive factor was employed, and whether there is any need to clarify its use or otherwise address the concerns raised by the GAO.

Accordingly, I request you survey contracting professionals who have applied the technical incentive factor as part of their weighted guidelines profit analyses. Please solicit their input regarding the attached questions, and any other comments they may have regarding the need for additional guidance regarding the use of the technology incentive factor.

Please provide the results of your survey within 120 days to my staff POC for this action, Mr. Richard G. Brown. His email address is Richard.G.Brown@osd.mil and he may also be reached by phone at 703-695-7197.


for Deidre A. Lee
Director, Defense Procurement

Attachment:
As stated

**USE OF THE TECHNOLOGY INCENTIVE FACTOR IN WEIGHTED GUIDELINES
PROFIT ANALYSIS**

- 1) Is the definition of innovation contained in the profit policy too broad, such that it could result in contractors being paid more profit for their current level of innovation, instead of for new technological innovations that significantly enhance performance, improve reliability, or reduce costs?
- 2) Should the technology incentive factor only be applied to newly developed technology, or should it also apply to recently demonstrated technology that may have been used on other products, but not on the product in question?
- 3) Should a time limit be applied to application of the technology incentive factor? For example, should it be applied only to contracts during research and development, or should it continue to be applied throughout some portion of follow-on production contracts?
- 4) The weighted guidelines profit policy indicates the technology incentive factor should be used to reward contractors for undertaking technical risk in developing or applying new technology during the acquisition cycle. However, DoD 5000 series policy guidance makes it clear that technology should be matured and demonstrated during the technology development phase before a program is initiated and component technology is integrated into a system. More specifically, DoD Regulation 5000.2R identifies technology maturity as a "principal element of program risk," and DOD Instruction 5000.2 provides managers with specific guidance for managing this element of program risk. Do you perceive any conflict between the goal of the profit policy and the policy guidance set forth in DoD 5000 series regulations and instructions?
- 5) Please provide any additional comments and suggestions regarding the use of the technology incentive factor.